

STATE OF MAINE  
PUBLIC UTILITIES COMMISSION

Docket No. 98-465

September 16, 1998

BANGOR HYDRO-ELECTRIC COMPANY  
Request for Extension of Space  
Heating Prices

ORDER APPROVING  
RESIDENTIAL SPACE  
HEATING PRICE AND  
COMMERCIAL SPACE  
HEATING PRICE

WELCH, Chairman; NUGENT, Commissioner

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**I. SUMMARY**

In this Order we approve the extension of Bangor Hydro-Electric Company's Residential Space Heating Price and Commercial Space Heating Price ("Space Heat Programs") through February 29, 2000, subject to conditions designed to protect ratepayers contained in the Orders approving the programs in Docket Nos. 95-701, 95-702, and 95-707. We also will investigate these programs in Docket No. 97-596 (Investigation of Stranded Costs, Transmission and Distribution Revenue Requirements, and Rate Design) to determine revenue requirement treatment beyond February 29, 2000 and to decide whether to re-authorize the programs beyond February 29, 2000.

**II. PROCEDURAL HISTORY**

On March 22, 1995, Bangor Hydro-Electric Company (BHE) filed rate schedules for a Residential Space Heating Price (RSHP). Further investigation was necessary to determine whether the load was temporary or permanent under terms of BHE's AMP, and subsequently BHE filed the same rate schedules as a permanent load program. These filings became Docket Nos. 95-701 and 95-702.

In an order issued on July 21, 1995, we approved the RSHP and discussed our intent to allow utilities to experience the discipline of the market first hand but to protect ratepayers from risks associated with such programs. The Order contained conditions to provide this protection. In addition, the Order required BHE to file for re-approval if the rates were to continue beyond October 1, 1998, and to include cost and revenue analysis in that filing.

On September 5, 1998, BHE filed rate schedules for a similar Commercial Space Heating Price (CSHP). On November 29, 1995, in Docket No. 95-707, we issued an Order approving a

Stipulation that implemented the CSHP subject to conditions similar to those imposed in the RSHP. The Stipulation did not require BHE to provide cost and revenue analysis when requesting re-approval.

On June 16, 1998, BHE requested continuation of its Space Heat Programs through February 29, 2000, and submitted the required cost and revenue analysis.

On July 24, 1998, BHE filed direct testimony of its witnesses in Docket No. 97-596 (Investigation of Stranded Costs, Transmission and Distribution Revenue Requirements and Rate Design). As part of establishing BHE's transmission and distribution revenue requirement and rate design after February 29, 2000, this proceeding is likely to address the effect of targeted programs on BHE's revenue requirement and the extension of such programs after February 29, 2000.

### **III. ISSUES AND ANALYSIS**

#### **A. Cost and Revenue Analysis of RSHP**

BHE's cost and revenue analysis indicates that approximately 5800 customers receive service under the RSHP. The analysis reports that 69 new residential customers were placed on the RSHP through the year 1997; a potential penetration rate of 2.4% of new dwellings. Program administrative costs through 1997 were \$180,834, to which the cost of generating electricity for additional space heat load must be added to determine total program costs. The analysis shows an estimated revenue gain through 1997 of \$217,987 under assumptions explained in the filing. Finally, the analysis shows potential incremental sales through 1997 of 22,813,889 kWhs.

We find the analysis presented in the filing reasonably complies with the requirements of the Order in Docket Nos. 95-701 and 95-702. The analysis raises questions as to whether the RSHP is now or will in the future positively impact BHE's net revenues. As we discuss below, a thorough examination of the validity and the underlying assumptions of this analysis is best considered in Docket No. 97-596.

#### **B. Ratepayers to be Protected from Program Risks**

We continue to hold the view that we should avoid involvement in a utility's strategic and tactical decisions but that we have a responsibility to protect ratepayers from the risks associated with a utility's experiments in the market. The Order in Docket Nos. 95-701 and 95-702 addressed two primary risks associated with the Space Heat Programs. Those risks

remain today. First, there is a risk of revenue losses that will be recovered from other ratepayers through rate increases. BHE's cost and revenue analysis shows that there is at least some likelihood of this event occurring. Second, there is the risk of financial distress on the part of customers who respond to program promotion under the expectation of continuing low prices and subsequently experience a significant, unanticipated rate increase.

In Docket Nos. 95-701 and 95-702, we imposed three conditions that would protect ratepayers from these risks<sup>1</sup>. BHE apparently contemplates maintaining the conditions, and we order their continuation. The first condition, that ratepayers be protected from revenue losses that might be caused by the programs, addresses our concern that any negative revenue impacts not fall upon ratepayers. The extent to which ratepayers are protected will be considered within the context of all other targeted rate programs. We discuss the mechanism for accomplishing this condition in the next section.

The second condition, that informational material be filed for Commission Staff review, addresses our desire to avoid future customer distress by increasing the likelihood that customers are making informed choices. The third condition, that no-interest loans be provided to residential customers for conversion if electricity prices rise significantly, further minimizes possible financial harm to customers.

#### C. Role of Docket No. 97-596

In Docket No. 97-596 (Investigation of Stranded Costs, Transmission and Distribution Revenue Requirements, and Rate Design), we will address the effect of targeted programs on BHE's revenue requirement. In that proceeding we will continue the condition we imposed in Docket Nos. 97-501 and 97-502 by considering the amount of revenue that would be collected at the otherwise available residential and commercial rates and by determining the extent to which that amount should be imputed to revenue requirements. To carry out this consideration, we will investigate the validity of the cost and revenue analysis of the programs.

In addition, we will decide on whether to continue the Space Heat Programs beyond February 29, 2000, in Docket No. 97-596 or any other proceeding that addresses continuation of targeted programs.

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<sup>1</sup> A fourth condition was a sunset provision that ends the programs on October 1, 1998, unless BHE files for re-approval.

Our approval of extension of the Space Heat Programs in this proceeding does not signal our approval or disapproval of BHE's cost and revenue analysis. Rather, we do not consider the current proceeding to be the most useful forum for this investigation, in light of the full investigation that must necessarily occur for all programs before March 1, 2000.

Accordingly, we

O R D E R

1. That BHE's Residential Space Heat Price and Commercial Space Heat Price be extended through February 29, 2000.

2. That revenues that would be collected at the otherwise available residential and commercial rates be determined in Docket No. 97-596; that the extent to which that amount should be imputed to revenue requirements be determined in Docket No. 97-596.

3. That advertising and other informational material shall continue to be filed with the Commission for Staff review as specified in the Orders in Docket Nos. 95-701, 95-702, and 95-707.

4. That no-interest loans be made available for RSHP customers as specified in the Order in Docket Nos. 95-701 and 95-702.

5. That continuation of the programs beyond February 29, 2000, be addressed in the context of continuation of all targeted rate programs.

Dated at Augusta, Maine this 16th day of September, 1998.

BY ORDER OF THE COMMISSION

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Dennis L. Keschl  
Administrative Director

COMMISSIONERS VOTING FOR:      Welch  
   Nugent